

FHA PowerSaver

Frequently Asked Questions (FAQs) for Lenders

What is the FHA PowerSaver program and when will it be available?

PowerSaver is a new insurance program from the Federal Housing Administration (FHA) to enable homeowners to make cost effective, energy saving improvements to their homes. PowerSaver will provide federal loan insurance and other incentives to participating lenders to deliver low-cost home energy improvement loans. Homeowners will be able to borrow up to \$25,000 for terms of 15 years (up to 20 years for certain improvements) to make proven home energy improvements of their choice, based on a list developed by FHA and the U.S. Department of Energy (DOE).

PowerSaver will begin as a nationwide two-year pilot program, launching in 2011. FHA is currently seeking lenders to participate in the pilot program. In selecting participating lenders, FHA will consider the market areas lenders propose to serve. Generally, FHA will require lenders to target market areas that have already taken affirmative steps to expand home energy improvements, such as educating consumers about the benefits of home energy improvements and ensuring qualified contractors are available to do the work. FHA anticipates announcing the participating lenders and communities in early 2011.

How will lenders benefit from participation in the FHA PowerSaver program?

According to industry forecasts and experts such as the Harvard University Joint Center for Housing Studies, more homeowners are interested in making their homes energy efficient. And local communities across the country are investing in consumer education programs to help homeowners make the right home energy improvement decisions and identify qualified contractors.

Still, options are limited for financing home energy improvements, especially for the many homeowners who are unable to take out a home equity loan or access an affordable consumer loan. PowerSaver provides lenders with a new product option to serve these homeowners and participate in a potentially growing market.

FHA will also provide:

1. Incentive payments to participating lenders primarily to help lower the cost of loans for consumers. Funds generally will be available to directly lower
 - loan interest rates for borrowers; and
 - servicing costs for originating lenders that also service PowerSaver loans– that also lead to lower interest rates for borrowers.
2. Streamlined insurance claims payment procedures.

Is there a secondary mortgage market for FHA PowerSaver loans?

While some lenders may choose to hold PowerSaver loans they originate, FHA recognizes that others may wish to sell them. PowerSaver was designed to enable liquidity for originating lenders. FHA will be working with Ginnie Mae and other entities on secondary market options for PowerSaver loans as the program gets off the ground, with the goal of further expanding the affordability and availability of PowerSaver loans.

How can local communities work with lenders to participate in the PowerSaver program?

FHA strongly encourages communities interested in expanding home energy improvements to encourage lenders serving their market areas to apply for participation in the PowerSaver program. In addition, under the PowerSaver program, local communities – including public agencies, nonprofit organizations and private sector entities – may provide funding that enhances the benefits of PowerSaver loans for consumers: local sources of funds could help support marketing, fund quality energy audits, offset servicing costs or reduce loan interest rates, for example.

What are the eligibility and underwriting criteria for PowerSaver loans?

PowerSaver loans are available to homeowners who have the wherewithal and motivation to make energy improvements to their home.

- Minimum credit score: 660
- Maximum total debt-to-income ratio: 45%
- Maximum combined-loan-to-value (first mortgage loan balance & PowerSaver): 100%
- Property Types: Existing 1-unit, owner-occupied, detached, principal residence properties only.
- Appraisal requirement: Exterior-only inspection residential appraisal or other FHA accepted method of property valuation.
- Loan Term: 15 years (20 years for renewable energy improvements)
- Lien position: Generally secured by mortgages or deeds of trust subordinate to the first mortgage, when one exists, and must hold not less than second lien position. Loans under \$7,500 are not required by FHA to be secured, but lenders may opt to secure them.
- Maximum loan: \$25,000
- Financing Costs: PowerSaver allows public agencies, nonprofits and private institutions to help lower the cost of financing for consumers with grants and other funds.
- Eligible Improvements: All PowerSaver loans must be used to make cost-effective energy saving improvements, based on a list published by FHA and DOE. Examples include insulation, duct sealing, energy efficient doors, windows, HVAC systems and water heaters, solar panels and geothermal systems. The list of eligible improvements is available in Appendix B of the Federal Register Notice posted on the Federal Register website at <http://federalregister.gov>.
- Energy Audit: While FHA does not require an energy audit homeowners should be encouraged to obtain one from a qualified professional. The results can help homeowners choose the most cost effective improvements.

What is required for lenders to participate in the PowerSaver Program and how do they apply?

Lenders must be FHA-approved as FHA Title I lenders to be eligible to participate in PowerSaver. Lenders that are FHA-approved Title II lenders that are not Title I approved will be required to obtain Title I approval in order to participate and may do so under an expedited process.

To be selected for participation in the PowerSaver program lenders must be able to demonstrate relevant experience, and have the:

1. Technical capability to interface with FHA through FHA Connection and any other computer systems utilized by FHA or its contractors pertaining to PowerSaver;
2. Ability to provide timely reports to FHA on loan origination and performance; and
3. Capacity to work in partnerships with public sector agencies, nonprofit organizations, utilities, and/or home improvement contractors.

FHA lenders of all types and size that have the commitment and capacity to provide PowerSaver loans are encouraged to apply for participation in the program. In selecting lenders to participate, FHA will evaluate:

1. Anticipated loan volume and target markets;
2. Goals and approach for participating;
3. Capacity (experience and/or potential) to work in public-private partnerships; and
4. Intent to deliver the most favorable loan product to consumers.

The following factors may also be considered:

1. Diversity of lender type and target market, by geography and/or
2. Commitment to serve lower-income households and communities.

Lenders will be required to describe specifically how they will use PowerSaver funds and demonstrate the resulting consumer benefit. FHA will closely monitor the use of funds to ensure they result in bona fide benefit to borrowers.

To apply to participate in PowerSaver, lenders must submit an “Expression of Interest” to FHA using the template and instructions located in Appendix A of the Federal Register Notice posted on the Federal Register website at <http://federalregister.gov>. Lenders that fail to do so will not be considered for participation. The Expression of Interest must be emailed to FHA at FHAPowerSaver@hud.gov.

What are the lender reporting requirements for the FHA PowerSaver program?

Lenders will be required to provide timely reports to FHA on the origination and performance of PowerSaver loans. FHA envisions requiring monthly reports on loan and portfolio performance. Lenders must be able to provide an electronic loan package to FHA for a random sample of loans chosen for quality reviews. FHA may also require reporting on the specific home energy improvements financed with each PowerSaver loan, using a standard template that FHA will provide to participating lenders.

How does PowerSaver compare to PACE (Property-Accessed Clean Energy) financing?

PowerSaver loans are subordinate to first mortgages, if there is a first mortgage, unlike most versions of PACE financing. In addition, PowerSaver loans are originated by FHA approved lenders, whereas PACE assessments are typically levied by local governments. As a result, Power Saver loans generally are secured by mortgages or deeds, not property tax assessments, as under PACE. Notwithstanding these differences, communities and homeowners that had been planning on utilizing PACE financing and now may not have that option, may consider PowerSaver as an alternative.

How does PowerSaver relate to the FHA Title I Property Improvement program?

FHA developed PowerSaver utilizing the statutory authority and regulatory framework for the FHA Title I Property Improvement program. This pilot is funded from the Energy Innovation Fund established in the Consolidated Appropriations Act, 2010. The PowerSaver program provides incentives and additional underwriting criteria that the Title I program does not, and PowerSaver loans can only be used for improvements that result in better home energy performance. PowerSaver is a separate program. However, certain features and limitations of the Title I program apply, including the:

- 90 percent limitation on FHA mortgage insurance; and
- Maximum insurance coverage of 10 percent in aggregate of the total amount of a lender's Title I loan portfolio.

The Title I Property Improvement program remains unchanged.